

PUBLIC DOCUMENT

**BEFORE THE
UNITED STATES TRADE REPRESENTATIVE**

STEEL

**MEMORANDUM FOR THE TRADE POLICY STAFF COMMITTEE
ON BEHALF OF EUROFER**

January 15, 2002

EUROFER TPSC Reply Submission

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I. Executive Summary

This submission is filed on behalf of EUROFER in response to the comments filed in this proceeding on January 4, 2002 on behalf of Bethlehem Steel Corporation, LTV Steel Company, Inc., National Steel Corporation and United States Steel Corporation ("Dewey/Skadden") and the comments filed on behalf of the Minimill 201 Coalition ("Schagrin").

The domestic integrated producers ask the TPSC to recommend a draconian import restriction: a 40 percent tariff on virtually all imported steel, together with a \$100 per ton minimum tariff, not to exceed a tariff of 50 percent ad valorem. See Dewey/Skadden, p. 3. The domestic minimill producers also ask for a 40 percent tariff, although they do not refer to the \$100 minimum tariff. See Schagrin, pp. 2, 13.

As discussed below, the domestic producers' proposal is completely inappropriate as Section 201 safeguard relief, because its costs to the U.S. economy substantially outweigh any benefits to the steel industries, and because their approach is both legally impermissible and unfair:

- The domestic producers' proposal would impose very substantial costs on the U.S. economy, including job losses of 30,000 – 65,000 workers in downstream industries. There will be an extremely adverse impact in sectors such as auto parts and autos that face fierce import competition. There is also a further impact on the more than 38,000 jobs dependent upon the handling of imported steel products. See Section II.
- The domestic producers' proposal would accomplish little if anything for those steel producers who are in dire straits. The price impact will be small in comparison to the price drop that has occurred, and will not bring prices to levels where the integrated producers are profitable. While the domestic producers will benefit from added volume as imports are excluded from the market, this benefit will not come close to restoring profitability. See Section III.
- The domestic producers' proposal is legally impermissible. It is a quota in drag: a wolf in sheep's clothing. A tariff this high – or anywhere close – will reduce imports to a level below the quota level allowed under U.S. law or the WTO. Their proposal is also unfair, because it penalizes countries and companies – especially in the EU – that had nothing to do with any problems currently experienced by certain U.S. steel producers. See Section IV.

In addition, we also respond below to certain other arguments put forward by the domestic producers. See Section V. In particular:

- The domestic producers' blanket objections to exclusion requests should be rejected in the absence of evidence that they can or do produce the product on a sustained basis.
- The domestic producers are incorrect when they justify Section 201 import restrictions on the ground that antidumping and countervailing duty orders abroad constitute "barriers to exports," as such orders merely level the playing field against unfair trade.
- The TPSC should reject the integrated producers' request that the TPSC recommend legislation to distribute Section 201 tariff revenues to the domestic steel industries. Such legislation would be bad policy, is unnecessary and would create inappropriate incentives to seek Section 201 relief. (By contrast, financial assistance from general tax revenues may well be warranted.)
- The domestic producers' emphasis on national security factors is unwarranted in the context of a Section 201 proceeding, and in any event, the Commerce Department has recently dismissed similar arguments in its Section 232 investigation of semi-finished steel imports.

Finally, we provide a list of the new information EUROFER has submitted to the TPSC that was not before the ITC at the time the Commissioners made their recommendations for relief. See Section VI.

II. The Domestic Producers' Proposal Would Cause Very Substantial Harm to U.S. Consuming Industries and The Overall U.S. Economy

The domestic producers' proposal is inconsistent with the statutory mandate to craft a remedy in which the economic and social costs do not outweigh the benefits. See Section 203(a)(1) (requiring that Presidential action "provide greater economic and social benefits than costs."). Given the substantial harm to U.S. consuming industries and the U.S. economy, and the fact that import restrictions are not a solution to the woes of certain U.S. steel producers (see Section III, below), the statutory mandate would not be met by imposing the extreme tariffs sought by the domestic producers (or any import restriction at all).¹

¹ While this submission focuses on the proposal by the U.S. producers of carbon and alloy products, the U.S. stainless steel producers are also seeking prohibitive relief. See Comments of the Domestic Specialty Steel Industry, filed by Collier Shannon Scott, Jan. 4, 2002 (seeking restrictive quotas or tariffs ranging from 35-49 percent). There are significant differences in market conditions in the stainless steel sector as compared to the carbon steel

(Continued ...)

On January 4, EUROFER submitted to the TPSC a study by Dr. Robert W. Crandall, a senior fellow at the Brookings Institute, regarding the economic impact of the Section 201 relief proposed by the domestic producers ("Crandall Study"). Dr. Crandall evaluated the effect of the proposed 40 percent tariff on U.S. steel-using industries. He found that the tariff would reduce output in downstream industries by 2-3 percent, causing the layoff of at least 30,000 - 65,000 workers, and possibly as many as 85,000 workers. See Crandall Study, pp. 14-15.² Moreover, the firms themselves will also suffer reduced profitability, hampering their ability to invest for the future and create jobs. Many of these firms make products where steel is 50 percent or more of their cost of goods sold and will be priced out of the market if a tariff is imposed and a significant price increase results.

In addition, more than 38,000 direct, induced and indirect jobs for U.S. residents in 2000 were dependent upon the handling of imported steel products.³ Furthermore, the U.S. port and inland transportation industry earned \$1.7 billion of direct business revenue to handle and move imported steel products. Id. These jobs and earnings are put at risk by measures that restrict steel imports to any significant degree.

The domestic producers blithely assert that "the effect of relief on consumers and domestic competition will be minimal." Dewey/Skadden, p. 24. This assertion is apparently based on the view that a 10 percent increase in the price of steel will have a minimal impact on consuming industries. Id., pp. 25-26. However, as Dr. Crandall's study finds, a 10 percent increase in the price of steel will have very significant impact

sector. Dr. Crandall notes the following about domestic stainless producers. "Their survival is not in question and they are highly competitive with their foreign rivals. The two largest publicly held companies, Allegheny Technologies and Carpenter Technologies, continue to be profitable. The stock market values them at more than either USX or AK Steel, the two largest integrated companies, even though they produce far less steel than these integrated companies." Crandall Study, Executive Summary, p. 4. In fact, the U.S. industry is characterized by the virtual monopolistic control of an extremely small number of companies that have remained economically viable throughout the period of investigation. Stainless steel produced by these companies, however, is not sufficient to meet domestic demand. There are certain products that are either not produced in the United States or are primarily produced for captive consumption and, therefore, are unavailable to domestic downstream processors. Accordingly, there are numerous domestic companies, such as automotive makers, that are wholly dependent upon imported steel products that are not otherwise available in the United States.

² We note that Dr. Crandall's findings are consistent with those of Trade Partnership Worldwide LLC, in a study submitted by CITAC to the TPSC on January 4. That study found job losses in other industries ranging from 36,000 to 74,500, depending on the tariff level.

³ Submission of the Free Trade in Steel Coalition to Ambassador Zoellick, Dec. 28, 2001, p. 1.

on employment in downstream industries. Do the domestic producers believe that job losses of this magnitude are minimal? Certainly, they do not treat such job losses as insignificant when they occur in the steel industry.

The domestic producers also argue that a 10 percent price increase has little importance because steel prices are currently at a historical low. Dewey/Skadden, p. 27 (stating that even with relief, steel prices will be at or below their average in nominal terms over the last 20 years). However, this argument is fundamentally misguided. From the standpoint of consuming industries, the central question is whether they must pay more for their steel than their competitors. If auto parts and auto companies around the world pay 10 percent less for their steel than U.S. companies, that gives them an unfair cost advantage. Given the fierce competition in these sectors, such a cost advantage is likely to translate into increased global market share for foreign firms at the expense of U.S. firms and workers.

There are numerous sectors where downstream producers face severe import competition and will be placed at a further disadvantage if they must pay significantly higher prices than their overseas competitors for a major input such as steel. For instance:

- The U.S. industries' proposals would be very disruptive for U.S. auto parts producers. High tariffs would limit access by the U.S. auto parts industry to certain specialized steel products. For example, the domestic industry does not supply extra-wide hot-rolled steel products used in the manufacture of structural frames. Without access to needed imports, auto parts suppliers would be precluded from supplying U.S. auto makers with parts needed for several of the most popular vehicles in today's current market (such as pick-up trucks and SUVs).⁴ U.S. auto parts manufacturers often pay higher prices for these specialized steel imports in order to meet the quality demands of their customers in the U.S. auto industry. Often, a parts producer relies on a single qualified supplier which could not be replaced without a long, difficult and expensive testing process -- if at all. Disruption of these supply lines is likely to lead to a permanent shift of the manufacturing to a non-U.S. site. Disrupting these imports -- which have not caused injury to U.S. steel producers -- will only result in a loss of U.S. auto parts jobs to competitors in Canada, Mexico, and Korea.⁵

⁴ See Declaration of Jayda Davenport, Supplier Development and Materials Manager, Structural Solutions Group, Dana Corporation, submitted to the International Trade Commission ("ITC") in connection with this investigation on October 4, 2001.

⁵ See, for example, the letter to the ITC of Robert D. Pritchard, President and CEO of A.J. Rose Manufacturing Co., submitted in connection with Hot-Rolled Carbon Steel Flat (Continued ...)

- The U.S. industries' proposals would also be harmful to the U.S. automobile industry – one of the most important steel consuming industries – at a time when domestic carmakers are already losing ground to foreign-made vehicles. U.S. automobile manufacturers underwent an unprecedented market share loss of 6 percentage points in the last 18 months as imports such as Honda and Toyota have produced their own sport/utility and minivan series. “[T]he market share loss is equivalent to one million units, or the production capacity of four U.S. assembly plants. ‘We have never seen that in a two-year period before.’”⁶ Similarly, a recent report in The Washington Post reiterated that U.S. automobile manufacturers are losing ground to Japanese and European imports due to the strength of the dollar and competition in the SUV segment.⁷ Harsh and unreasonable restrictions on imports of steel will only accelerate this loss of market share – again, ultimately to the detriment of the U.S. steel industry.
- U.S. manufacturers of a wide variety of products, including appliances, electric motors, and compressors, are struggling to maintain market share against imports of finished steel-containing goods. Ironically, import penetration in these products is generally far greater than import penetration in the flat-rolled steel products.⁸
- U.S. metal stampers – mostly small businesses – believe they will lose business rapidly to foreign competitors if the U.S. steel producers’ remedy is imposed.⁹

Products From Eleven Countries, Inv. Nos. 701-TA-404-408 (Final) and 731-TA-898-908 (Final) on August 17, 2001. (“{D}omestic hot-rolled steel does not meet our quality requirements on a consistent basis and is thus not interchangeable with the Dutch product....To date, we have not received a proposal {from the domestic industry} that meets the specifications that are delivered by our current Dutch supplier every day.”)

⁶ “Ford plans to slash 10% of U.S. white-collar force,” Aug. 17, 2001, available on the CNNfn website at <<http://cnnfn.companies.printthis.clickability.com>>, visited on August 17, 2001.

⁷ See “Falling Sales, Recalls Stagger Ford,” The Washington Post, Aug. 18, 2001, at E2 (“Imports now make up 36% of U.S. auto sales, a 10 percentage point gain in the last five years. Those gains have been at the expense of Ford, DaimlerChrysler and GM.”).

⁸ See testimony of Mr. Suter, Remedy Hearing Transcript at 278-281.

⁹ See testimony of Mr. Erickson at 281-282; Mr. Zawacki at 282-283; Mr. Sopko at 283-284.

- U.S. can makers are already losing ground to alternative forms of packaging, especially in the food products area. As industry representatives testified before the ITC, tin mill products account for 60 to 75 percent of the marginal cost of producing steel cans, and import restrictions on tin mill products will further encourage can customers to switch to alternative forms of packaging.¹⁰
- Indeed, important elements of the U.S. steel industries will be significantly harmed by use of these restrictions. See Section III.C, below.

The domestic producers try to argue that there will be significant costs to federal and state governments, local communities and taxpayers, if their proposal is not adopted. Dewey/Skadden, p. 27. However, this argument turns on whether the domestic producers' proposal actually will resurrect the integrated producers and thereby enable these governments and communities to avoid these costs. As shown in Section III, below, this is not the case. Rather, whether these costs will occur depends on whether the integrated producers are able to make the necessary changes – including consolidation and revision of their business models, as appropriate – in order to compete effectively with domestic and global competition. In other words, the threat of these costs has little to do with import restrictions.

III. The Domestic Producers' Proposed Remedy Will Not Restore to Health the U.S. Steel Producers Who Are In Difficulty

Contrary to domestic producers' assertions, any serious injury currently suffered by certain producers in the U.S. steel industries will not be remedied by any form of import restriction.

A. Certain Domestic Producers Are in Dire Straits

As Dr. Crandall found, certain integrated domestic producers are in major distress, due to their non-competitive cost structure.

- In November, the domestic flat-rolled steel industry forecast losses of over \$2.8 billion in 2001.¹¹ Of this amount, the lion's share was undoubtedly due to the terrible performance of certain integrated producers – USX, Bethlehem, Geneva, LTV, AK Steel, Rouge, Ispat, Weirton and WHX. For instance, Dr. Crandall's study shows

¹⁰ See Tr., 297-300 (Mr. Scrimo).

¹¹ See Domestic Producers' Pre-Hearing Brief to the ITC on carbon and alloy flat products, October 29, 2001, p. 7. This number was calculated by annualizing the approximately \$1.4 billion in operating losses for flat products for the first half of 2001. Id., n. 11.

that based on the latest 10Q filings, these producers lost almost \$800 million in the latest quarter, while the mini-mill producers made a small profit. Crandall Study, p. 3.

- The domestic producers claim that they need to make \$7-9 billion in new investment over the next several years in order “to keep the flat-rolled steel industry competitive.”¹² And presumably additional investment is needed for steel products other than flat-rolled steel.
- Certain domestic producers face huge legacy cost expenses. The ITC Final Staff Report identifies more than \$8.6 billion in unfunded post-employment, non-pension benefits for the year 2000.¹³ The domestic producers have elsewhere suggested that more than \$13 billion is needed to handle legacy costs.¹⁴ As domestic producers point out, these liabilities prevent consolidation in the U.S. industry, and therefore must be addressed before the under-performing members of the U.S. industry can consolidate into one or more healthy companies.¹⁵

The magnitude of these problems means that import restrictions, at whatever level, will make an insignificant contribution to resolving the difficulties of the integrated producers. Moreover, the benefits of such relief cannot be targeted to the ailing companies. Thus, the result of approaching relief through import restrictions will be that the majority of producers, who are basically healthy, will receive a windfall – while inadequate relief will be provided to the minority of ailing firms.

B. The Domestic Producers’ Proposed Import Restrictions Will Not Enable the Weak Producers to Achieve Profitability, Let Alone Permit Necessary Investments and Cover Legacy Costs

The central problem with the domestic producers’ proposal is that import restrictions cannot solve the severe problems being experienced by certain members of the U.S. steel industries. Neither the increased prices, nor the increased volumes, come anywhere close what would be needed to restore these companies to health.

¹² Dewey/Skadden, p. 36.

¹³ Final Staff Report at Table-OVERVIEW-9 (Public Version).

¹⁴ See Robert Guy Matthews, “U.S. Bid to Cut Global Steel Capacity Comes With Threatened Tariff Boost,” Wall Street Journal (Dec. 14, 2001) (referring to a “\$13 billion tab for retiree costs.”).

¹⁵ Dewey/Skadden, p. 33.

1. Price impact

Estimates of the price impact of the domestic producers' proposal vary somewhat. The domestic producers project an increase in domestic flat-rolled steel prices of 6.75 to 8.90 percent (Dewey/Skadden, p. 4 and Table 1.). The ITC projects a price increase of far less than that, finding that a 40 percent tariff on all flat-rolled steel products except slab would generate a price increase for all flat-rolled products of 1.2 to 2.6 percent.¹⁶ On the other hand, Dr. Crandall's study assumes a price increase of 10.5 percent from a 40 percent tariff.

But regardless of whether the price increase is 1 percent or 10 percent, the TPSC should carefully evaluate whether such a price increase will restore prices to the level necessary for the less competitive U.S. producers to be profitable. For instance, the domestic producers complain that hot-rolled steel prices have declined from \$320-340 ton in early 2000 to the current \$220-\$240 ton level, or by about \$100. Dewey/Skadden, p. 15. But even a 10 percent increase on a \$230/ton price would increase prices only to \$250.¹⁷ In order to determine whether the U.S. integrated producers will still be making significant losses at that price, we refer the TPSC to the joint respondents' September 28 post-hearing brief on injury to the ITC on hot-rolled sheet, strip and coils, Exhibit 2 (containing confidential business information regarding the average unit costs of integrated producers of hot-rolled steel). In other words, the TPSC should determine whether the scale of price increases resulting from import restrictions can only mitigate the losses (by making a contribution to covering fixed costs), but cannot achieve profitability for high-cost producers.¹⁸

Rather than import restrictions, the essential components of a significant price increase will be a recovery in demand and meaningful capacity closures in the United States and abroad. Prices are already moving up by more than the expected impact of the 40% tariff.¹⁹ The Wall Street Journal reported last week that the price of hot-rolled steel has jumped 15% in the past 60 days, and may increase to \$250 a ton in a few

¹⁶ See Memorandum from Craig Thomsen and James Fetzer to the Commission, Dec. 5, 2001, Re: Inv. No. TA-201-73: Steel, EC-Y-050 ("ITC Econ. Mem."). The ITC analysis does not assess the impact of a 40 percent tariff on all flat-rolled products including slab.

¹⁷ Thus, the mini-mills acknowledge that "application of the [40 percent] tariff to current import prices would not return those prices to pre-crisis levels." Schagrin, p. 2.

¹⁸ As the domestic producers acknowledge, in the current conditions, the incremental sales from an import restriction will be "at prices that cover variable costs" – i.e. these sales will not cover fully allocated costs. Dewey/Skadden, pp. 9-10 n. 21.

¹⁹ The mini-mills argue that the recent price increases are due to the Section 201 recommendations for high tariffs. Schagrin, p. 2. However, given the small level of imports in the market, the recent increases have less to do with the ITC's recommendation of relief against imports, than with the recent capacity closures.

months. USX's order rates averaged about 90 percent of capacity in December and Nucor is booked for the entire first quarter.²⁰ AK Steel stated recently that it is increasing production of electro-galvanized sheet and strip mill products, due in part to improved demand from automotive customers. Similarly, Weirton has restarted a blast furnace, in part because of customers seeking to increase inventories and the anticipation of improved economic performance in the second quarter and the rest of 2002.²¹

This upward movement in prices derives in large part from the capacity closures at LTV and Geneva. Indeed, the ITC projects that the price increases resulting from closures in the domestic industry would be significantly greater than the price increase resulting from the tariff. (ITC Econ. Mem., EC-Y-050). We continue to believe that the essential first step to the restructuring and recovery of the American steel industry is timely closures of uneconomic capacity. While many parts of the American industry are excellent, the substantial amount of uneconomic capacity burdens all the rest. As a result, prices, profits and returns on capital are lower for the industry as a whole. One clear sign of the weight of this burden -- and the pay-off in removing it -- is the extraordinary surge in prices that has taken place over the past several weeks. While some would attribute this to hedge-buying, the simple fact is that, without the removal of 24 million tons of hot-rolling capacity, the rise in orders would not have produced a price impact. The primacy of capacity closures is obvious

However, it is essential to appreciate that there is an upper limit on any price increase. If the price moves above a level where the efficient minimills are profitable, then the minimills will increase production and build new facilities in order to take market share away from the weak integrated producers, thereby driving down prices to a level where the minimills are profitable but the integrated producers are not (due to their higher cost structure). Dr. Crandall estimates that these new facilities would be built at price levels in the spot-market for hot-rolled sheet of \$350-375 per ton. Crandall Study, p. 7. When the price falls due to the added mini-mill capacity, integrated producers will no longer be profitable. In brief, as Dr. Crandall points out, U.S. prices have been falling steadily for 25 years due to increased efficiency. Id., p. 9 (Figure 1). The rise of the more efficient mini-mills inevitably serves as a brake on price increases and puts significant competitive pressure on the less competitive integrated producers.

²⁰ Robert Guy Matthews, "U.S. Steel Mills Lift Key Domestic Prices And Will Seek More Increases Midyear," Wall Street Journal, Jan. 10, 2002.

²¹ Tom Balcerek and Scott Robertson, "Distributors wary about production ramp-up," American Metal Market, Jan. 10, 2002.

2. Volume effects

The domestic producers' proposal forecasts draconian reductions of more than 5 million tons in imports of finished steel products.²² They state that this is a reduction of more than 65 percent.²³

This is an extraordinary reduction in imports. These industries argued that they were not injured in 1996-97, when the share of the overall flat-rolled market held by imports was over 8 percent. They now tell the TPSC that they need a 65 percent reduction on imports, reducing the market share of non-Canadian finished steel imports to approximately 2.2 percent of apparent domestic consumption.²⁴

But even these draconian import reductions will not restore the industry to profitability, let alone allow them to make the \$7-9 billion in new investments they say are necessary to enhance their competitiveness or address the huge legacy costs burdening certain producers.

The steel industries lost over \$2.8 billion in 2001. Based on 2001 data, the domestic producers themselves state that operating income will grow by only \$1.42 billion if their proposal is adopted. Thus, their proposal only covers half the profitability deficit, and makes no contribution toward the necessary new investments and legacy cost problem. Plainly, import restrictions – even at this draconian level – will not solve the problems of the U.S. steel industries.²⁵

²² Dewey/Skadden, Exhibit 1.

²³ Id.

²⁴ The domestic producers state that their proposal would reduce imports of finished steel by 5.13 million tons. Based on annualized 2001 non-Canadian import levels of 8.1 million tons, see ITC Final Staff Report (Public), Tables FLAT-3 and FLAT-4, that results in imports of just 3 million tons. Based on annualized 2001 apparent consumption of about 136 million tons for finished products, import market share would be 2.2 percent. (2001 apparent consumption calculated from tables FLAT-52 through FLAT-57 of the public staff report.)

²⁵ The ITC projected that a 40 percent tariff would increase domestic revenues by \$2.8 to 4.5 billion. See EC-Y-050. However, this estimate was apparently based on data from 2000, the last calendar year in the ITC's period of investigation. As the domestic producers acknowledge, their proposal's impact on revenue is more than one-third lower using 2001 data than it was using 2000 data (because imports declined sharply in 2001). See Dewey/Skadden, pp. 4 and 24 n.62. Thus, if the same corrective is applied to the ITC's analysis, a 40 percent tariff would increase domestic revenues by only \$1.8 – 3.0 billion.

C. The Domestic Producers' Proposal Would Severely Affect Certain U.S. Steel Producers

In considering the alleged benefits of the domestic producers' proposal for the "U.S. steel industry," the TPSC must also consider the fact the proposal will have very adverse effects on those members of the U.S. steel industries who purchase steel inputs from abroad. The TPSC should carefully consider the situation of intermediate products – including important examples such as slabs, free-machining bar, full-hard cold-rolled, etc. Imposing import restrictions on these products causes significant harm to members of the U.S. steel industry.

There are several products subject to this investigation that are necessary to the operations of the domestic producers of steel. U.S. producers of steel products import these intermediate products and transform them into a finished steel product. Without ready access to these imported intermediate products, these U.S. steel producers would be severely injured, because they are unable to source sufficient quantity or quality from domestic suppliers. Import restrictions would come on the heels of the ITC's determination that many of these producers already are injured and would come at a time of general economic decline. Adding any kind of financial burden, especially the type of burden that would result from the steep 40 percent sought by the domestic industry, would be disastrous for these companies.

The ITC remedy opinions acknowledged the importance of these considerations when the Commission Majority recommended more lenient treatment for slab. For instance, the Commission Majority stated that its recommendation of a tariff-rate quota for slab was "intended to avoid causing harm to domestic steel producers that have legitimate needs to continue to import slabs."²⁶ The Majority further noted that "the overall supply [of domestic slab] is inadequate to satisfy the needs of slab purchasers on a long-term basis."²⁷ The same reasoning applies equally to certain other intermediate products.

The imported products that are intermediate products for the U.S. steel industry include, in addition to slab, the following products: free-machining bar, battery quality hot band, full-hard cold-rolled and plate purchased by the domestic pipe industry, as well as others. The situations of such intermediate products can be summarized as follows:

²⁶ ITC Opinion, p. 381.

²⁷ Id.

- Free-machining bar is used by independent cold-finished bar producers. Without access to imports for their free-machining hot-rolled bar inputs, these cold-finishers would either become dependent upon a single domestic producer of free-machining steel for their input requirements or be compelled to buy free-machining steel from their competitors in the downstream cold-finished steel market.
- Battery-quality hot band (BQHB) is cold-rolled and nickel plated by Thomas Steel Strip Corp. in Warren, Ohio. There is no domestic producer of BQHB that is qualified by the downstream battery manufacturers, Everready, Duracell and Rayovac. Without access to imports of BQHB, Thomas Steel would be unable to compete.
- Full-hard cold-rolled steel is a semi-finished steel which is an essential input for galvanizing operations. While some U.S. steel companies produce full-hard for their own internal consumption, these same producers have been unable or unwilling to meet the open market's demand for full-hard. Restricting imports of full-hard would only result in certain U.S. steel companies gaining an unfair advantage over U.S. steel companies which import full-hard.
- Plate imported for the domestic pipe manufacturing industry accounts for over 80 percent of the final cost of the goods produced. A 40 percent increase on the price of steel for pipe manufacturers would result in a huge increase in the price of the final product, making these firms non-competitive.

The ITC has already acknowledged the special role played by imported slabs in the U.S. market. The other products mentioned above likewise share in this special role. U.S. producers of steel need these products in their operations, and import restrictions would therefore injure these U.S. steel producers.

IV. The Domestic Producers' Proposal Is Legally Impermissible and Unfair

Aside from consideration of domestic economic costs and benefits, the TPSC should not accept the domestic producers' proposals because it is legally questionable and unfairly burdens producers, such as EU companies, who have not contributed to any problems experienced by the U.S. steel industries.

A. The Domestic Producers' Proposal is Legally Impermissible

The domestic producers' proposal will bring benefits only by shifting volume from imports to the domestic industry to an impermissible extent

The domestic producers acknowledge that their proposal would reduce imports of finished steel products by more than 5 million tons. Dewey/Skadden, Exhibit 1. Assuming that this reduction is from the already very low 2001 annualized level of non-Canadian imports of 8.1 million tons,²⁸ their proposal would reduce non-Canadian finished steel imports to an annual level of approximately 3 million tons. This is more than 75% below any year during the ITC's period of investigation (1996-interim 2001).²⁹

This is an impermissible approach which aims at circumventing the rules under U.S. law and the WTO Safeguards Agreement, which provide for a minimum quota on imports. More specifically, this tariff violates the requirement of Section 201(e)(4):

Any action taken under this section proclaiming a quantitative restriction shall permit the importation of a quantity or value of the article which is not less than the average quantity or value of such article entered into the United States in the most recent 3 years that are representative of imports of such article

This provision clearly demonstrates Congress' intent that Section 201 relief must not restrict imports below the average quantity of imports in the most recent 3 representative years.³⁰ It cannot be seriously contended that Congress intended for the President to use a tariff to reduce imports below this level, even though Congress expressly prohibited the President from doing so by using a quota.

Yet the specific purpose of this tariff is its quantitative effect. It is set deliberately at a level intended to be sufficiently preclusive that it will sharply reduce import quantities. It is used instead of a quota, as U.S. industry counsel acknowledged,³¹ because the statutory limitation on quotas - imposed by Section 203(e)(4) would

²⁸ Calculated by taking the ITC's data for total non-Canadian flat-rolled imports from January – June 2001, subtracting non-Canadian slab imports during this period, and multiplying by two in order to annualize the data. See ITC Final Staff Report (Public), Tables FLAT-3 and FLAT-4.

²⁹ The lowest full year during the period was 1996, when total finished steel imports were 12.6 million tons. Id.

³⁰ In referencing this statutory language, EUROFER does not suggest that the statutory (and WTO) language require domestic authorities to rely on the most recent three years when limiting import quantities. Where those years are not representative, e.g. due to a significant surge in one or more of those years, the statute and the WTO Safeguards Agreement permit authorities to rely on earlier years.

³¹ Mr. Schagrin, counsel for the Minimill 201 Coalition, conceded at the ITC remedy hearing that the industry had been unable to find a three-year representative period that would provide relief. (ITC Remedy Hearing Transcript, p. 158.)

otherwise have prevented the quantity restriction desired by the U.S. producers. This is an impermissible "end run" around Section 203(e)(4) and therefore must be rejected.

The approach also is inconsistent with Section 203(e)(2), which authorizes import restrictions "only to the extent the cumulative impact of such actions does not exceed the amount necessary to prevent or remedy the serious injury" caused by imports.³² The U.S. producers' tariff proposals violate this standard, both conceptually and specifically.

The purpose of import relief under this statute is to remedy the injury caused by increased imports, not to offset the effects of declines in U.S. demand or the internal problems of U.S. producers. As the domestic producers themselves have noted, "relief must target these surges of low-priced imports, rather than compensate companies for costs unrelated to those imports."³³ Thus it is proper for import restrictions to reduce increased imports to pre-increase, non-injurious levels. And it is proper for import relief to raise import prices to eliminate the underselling of U.S. producers' prices.

The U.S. producers' tariff does not remedy injury caused by increased imports. It does not reduce imports to prior non-injurious levels, because imports of flat-rolled products - in the aggregate and in all subject product categories - are today below the average of 1996-97, the period when the U.S. producers acknowledge that imports were non-injurious. Nor does the proposed limitation purport to eliminate import underselling, because flat-rolled imports today are not underselling the prices of U.S. producers.

The huge tariffs proposed by U.S. producers have a quite different and impermissible purpose and effect. They were calculated to bring about whatever degree of import volume reduction is necessary to achieve an increase in U.S. producers' profitability. As such, they "remedy" the effects of the recent declines in U.S. demand, excess U.S. capacity, domestic firms' legacy costs and other internal problems which have nothing to do with imports. That is simply impermissible.

³² See also Article 5.1 of the WTO Agreement on Safeguards. On this ground, the Commission has rejected "excessive" import restrictions urged by domestic industries. See, e.g., Circular Welded Carbon Quality Line Pipe, Inv. No. TA-201-71, USITC Pub. No. 3261 at I-80 (Dec. 1999).

³³ See Remedy Prehearing Brief of Minimill 201 Coalition (Long Products), at 2.

B. The Domestic Producers' Proposal Would Unfairly Punish Exporting Countries Who Have Not Contributed to the Problems of U.S. Steel Producers

The domestic producers' proposal would not distinguish between countries (such as the EU) that have not contributed to the current problems, and those countries whose imports surged during the period of investigation.

Contrary to domestic producers' claims (Dewey/Skadden, Executive Summary, p. 3), an ad valorem tariff does not "affect[] imports of specific products from individual countries in the same way." This is because steel products vary significantly in price. An ad valorem tariff therefore falls much more heavily on exporters of higher value products (such as the EU). Ironically, these higher value products are less likely to adversely affect U.S. producers than the lower value commodity products.

The domestic producers' proposal is also unfair because it fails to take into account the existing Title VII remedies against imports.³⁴ Under the U.S. antidumping law, "import duties" are deducted from the U.S. price to be compared with "normal value" in the home market. Section 201 tariffs such as those proposed by the domestic producers would therefore be deducted from the U.S. price, creating or increasing the dumping margin. Thus, for countries subject to dumping orders, a 40 percent tariff is effectively an 80 percent tariff. This obviously preclusive impact gives the lie to the domestic producers' claim that "tariffs do not prohibit any imports from entering the U.S. market." Dewey/Skadden, p. 13. Even at levels far lower than 40 percent, a tariff that does not take into account the existing Title VII measures will preclude imports from entering the U.S. market.

V. Other Issues

A. Treatment of Exclusion Requests

The domestic producers assert that they have consented to exclusion requests "where the domestic industry cannot produce the product in question or cannot produce a substitutable and equivalent product." Dewey/Skadden, p. 41. However, the domestic industry has reserved this judgment for itself, declining to submit any evidence that they have produced the products in question, let alone in commercial quantities. The TPSC should not defer to such unsupported blanket assertions. In the absence of concrete evidence – e.g., customer statements, technical trials, etc. – demonstrating the

³⁴ Indeed, they expressly endorse "an increased tariff, on top of the remedies established under Title VII," without discussing the interaction between the two remedies that compounds the impact of a tariff-based Section 201 remedy. Dewey/Skadden, p. 14.

validity of the domestic producers' assertions that they "can make" a product, the TPSC should not accept these claims.

B. Diversion of Foreign Exports to the United States

The domestic producers wrongly assert that the European Union's quantitative restraints on steel imports from the Eastern Europe and the former Soviet Union have diverted exports to the United States. Dewey/Skadden, p. 48. In fact, the EU has accepted far more of the increase in imports from this region than has the United States.

European imports continue to rise to yet another record level in 2001. It was Europe that absorbed the larger increase in net imports since the onset of the twin crises in the former Soviet Union and Asia in 1997-98. And Europe has not taken significant antidumping and countervailing duty remedies, let alone safeguard actions, to reduce access to its market. If imports are being deflected in any direction, it is from the United States toward Europe. See Attachment 1.

Moreover, the domestic producers show some gall in complaining about "antidumping and countervailing duty orders in place in third countries." Dewey/Skadden, p. 48. Domestic producers, of course, have been the most active users of the U.S. unfair trade remedy laws. And they maintain this stance in their TPSC submission, calling for "improved enforcement and strengthening of unfair trade laws." Id., p. 40. Absent any evidence that other countries are abusing their unfair trade laws, AD/CVD orders do not constitute "barriers to exports" to these third-country markets, but rather restore a level playing field.

C. Reallocation of Tariff Revenues

The domestic producers propose that to seek legislation that would distribute the tariff revenues generated by the proposed remedy to members of the U.S. steel industries, contingent on their consolidation and restructuring. Dewey/Skadden, p. 36. EUROFER strongly opposes this proposal, for several reasons. First, it is inappropriate to require foreign steel mills to subsidize their competitors' restructuring, and sets a bad policy for other countries to impose tariffs on imports and use the proceeds to benefit their domestic industries. Second, government funds are fungible. If funds are required to promote restructuring – e.g. conditional legacy cost relief, alleviation of the social pain of restructuring, reduction of exit costs – that determination should be made independent of whether resources are generated. Third, this proposal suggests that the choice of whether to impose an import restriction, and if so which restriction to apply, should be determined by the need to generate financial resources. That is the tail wagging the dog, in the context of a Section 201 proceeding, particularly given the huge costs to the U.S. economy of the tariff proposed by domestic producers. Fourth, the proposal risks creating an inappropriate incentive for firms to file Section 201 actions in the hope of obtaining revenues generated thereby.

We also note that the Minimill Coalition does not support this proposal. See Schagrin submission.

D. National Security

The domestic producers argue that “national security interests weigh heavily in favor of strong import relief.” Dewey/Skadden, p. 42. EUROFER respectfully submits that national security factors, to the extent they are significant in the steel industries, should be considered pursuant to proceedings under Section 232 of the Trade Expansion Act of 1962 – a provision that is specifically intended to address the impact of imports on U.S. national security.

We further note that in a January 9, 2002 report on its Section 232 investigation into the effect of imports of iron ore and semi-finished steel on U.S. national security, the Commerce Department found that imports of these items do not threaten to impair U.S. national security. This finding took into account the events of September 11 and the U.S. response thereto. The Commerce Department found that U.S. production of these products is significantly larger than the maximum amounts that might be required for national security purposes, and that most imports of these items derive from countries deemed to be “safe” suppliers for national security purposes.

The same is true of steel imports generally, as U.S. production of steel products is significantly larger than any possible needs of the U.S. military, and the vast majority of imported steel is from countries that are “safe” suppliers for national security purposes. Indeed, the Commerce Department found that “[n]ational defense requirements, as communicated to the Department of Commerce by DOD, for finished steel - and thus for iron ore and semi-finished steels as inputs - are very low and likely to remain flat over the next five years. DOD's current and projected demand for iron ore and steel can be readily satisfied by domestic production. Moreover, DOD already has established domestic preferences that apply to essentially all of the steel used in weapons systems; accordingly, no weapons system is dependent upon foreign steel.”³⁵ Thus, the U.S. government itself has determined that national security concerns are not a significant factor in finished steel trade.

VI. New Information Submitted to TPSC

As requested by the TPSC, we submit the following list of the new information EUROFER has submitted to the TPSC that was not before the ITC in its investigation. We believe that the new information is particularly informative regarding the recent price increases in the market and the impact of tariffs on the U.S. economy.

³⁵ See U.S. Commerce Department, “The Effect of Imports of Iron Ore and Semi-Finished Steel on the National Security: An Investigation Conducted Under Section 232 of the Trade Expansion Act of 1962, as amended (October 2001), Executive Summary.

1. Dr. Robert W. Crandall, "The Futility of Steel Trade Protection."
2. Robert Guy Matthews, "U.S. Bid to Cut Global Steel Capacity Comes With Threatened Tariff Boost," Wall Street Journal (Dec. 14, 2001); Robert Guy Matthews, "U.S. Steel Mills Lift Key Domestic Prices And Will Seek More Increases Midyear," Wall Street Journal, Jan. 10, 2002; Tom Balcerek and Scott Robertson, "Distributors wary about production ramp-up," American Metal Market, Jan. 10, 2002. See Attachment 2.
3. Information regarding the increase in imports of steel products into the EU. See Attachment 1.
4. U.S. Commerce Department, Report under Section 232 of the Trade Expansion Act of 1962 on Effect of Imports of Iron Ore and Semi-finished Steel on U.S. National Security, January 9, 2002.
5. Comments of Acciai Speciali Ternia, S.p.A and EBG Gesellschaft Fur Elektromagnetische Werkstoffe GmbH re Non-Oriented Silicon Electrical Steel (NOES) from the European Union, January 4, 2002.

* * *

Conclusion

In sum, as discussed in EUROFER's January 4 submission, there is no justification for any restrictions on imports in general, and even less on those from the EU. Excluding the surge years, imports overall and in most product lines have fallen to below any recent representative period. With the reduction of domestic capacity, prices have begun to recover as well.

We appreciate this opportunity to bring our views to the attention of the Trade Policy Staff Committee. If the TPSC has any questions, please contact the undersigned.

Respectfully submitted,



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Attachment

**EU AND US STEEL TRADE BALANCE WITH THE WORLD
IN MNT**

Period	EU	US
1994	16.9	- 26.2
1995	5.8	- 17.3
1996	16.3	- 24.1
1997	9.9	- 25.1
1998	- 1.1	- 36.0
1999	- 2.2	- 30.3
2000	- 3.7	- 31.4
2001	- 7.2	- 23.8

Notes:

Figures derived from data provided by EUROFER (for the EU) and from the American Iron and Steel Institute's Annual Statistical Report (2000).

Data for 2001 are annualized -- based on available data for 6 months for the EU and for 10 months for the United States.

Negative numbers designate negative trade balance, i.e. a net importing position.

These data indicate that the EU has suffered a substantial deterioration in its importing position during the five consecutive years starting in 1997. The US net importing position, on the other hand, is the lowest it has been in any year since 1995. The change in the EU's net trade balance has been continuously adverse, while the US trade balance position has been improving with some fluctuations.

The larger increase in net imports since the onset of the crises in the former Soviet Union and Asia (1997-1998) has happened in Europe -- 23.5 MNT increase in net imports, compared to a net decrease in net imports by 0.3 MNT in the US. Thus, the EU absorbed more of the change in the world steel market in the last five years than has the US.

If we go back to 1994, the results are even more striking: the US went from 26.2 MNT of net imports to 23.8 MNT of net imports in 2001 (2.4 MNT **decrease** in net imports); the EU, on the other hand, went from 16.9 MNT of net exports to 7.2 MNT of net imports (24.1 MNT **increase** in net imports).



December 14, 2001

Page One Feature

U.S. Bid to Cut Global Steel Capacity Comes With Threatened Tariff Boost

By ROBERT GUY MATTHEWS

Staff Reporter of THE WALL STREET JOURNAL

On Monday, key officials from the world's top steel-producing countries will gather at a summit in Paris to deliver the following answer to President Bush's proposal that they cut steel production: No. Nyet. Non.


Their expected refusal will set the stage for a nasty confrontation, pitting the U.S. and the clout of the world's biggest steel importer against the exporting interests of the European Union, Russia, Japan and Brazil. The timing, too, is less than ideal. These nations make up a large part of the international coalition Washington has coaxed together to support its campaign against terrorism.

But then it also is crunch time for the domestic steel industry. Twenty-eight steel companies have filed for bankruptcy protection since 1997, including the nation's third- and fourth-largest. In an extraordinary bid to salvage the industry, last week **USX-U.S. Steel Group** proposed buying its troubled competitors **Bethlehem Steel Corp.**, **National Steel Corp.** and **Wheeling-Pittsburgh Corp.**, if the government would pick up a \$13 billion tab for retiree costs.

No Carrot, Big Stick


President Bush is in effect telling the global industry to become a kind of cartel or kiss the U.S. market goodbye. The U.S. International Trade Commission last week recommended that President Bush tack on additional tariffs ranging from 5% to 40% for key steel products. President Bush could threaten next week to leave the doors of the U.S. market open only a very costly crack if the world's steelmakers don't agree to cuts -- cuts that could wipe out several foreign steel companies. Hit especially hard: steelmakers in Russia, Brazil, Japan, and South Korea, which rely heavily on exports to the U.S.

A champion of free markets, President Bush is pushing protectionism on behalf of an industry that has diminished in size and importance in the past 20 years as more global forces have made their way into the U.S. market,

 **U.S. Steel Warns of Bleak Period, Says It Expects Drop in**

taking advantage of steel's bloated cost structure. Yet, even as the work force is at its lowest level in decades and the number of steel mills has greatly diminished, steel continues to play a huge role in the industrial base of the country, providing parts for cars, washing machines and homes. Moreover, the travails of the steel industry affect the tax base of communities and states, and the health of industries that consume steel and supply steelmakers.

Shipments

 EU Trade Official Lamy Vows to Take U.S. to WTO Tribunal Over Tariffs

Mr. Bush says a healthy steel industry also is vital for national security, although some question that point. And steel could be crucial for the president's political career. The industry remains big in swing states such as Pennsylvania, Ohio and West Virginia, where a good portion of 600,000 retired steelworkers live. West Virginia, in particular, could be key to the 2004 presidential election. Mr. Bush scored a surprise win there last year, and he has since taken pains to address the concerns of the steel industry.

Countries around the world have similar concerns. They also don't want to lay off their own workers so that the world's steel industry can eliminate capacity. And it could cost millions of dollars to make sure that shuttered steel mills don't become environmental hazards.

EU Trade Commissioner Pascal Lamy, speaking to the U.K. Steel Association Thursday in London, said the U.S. was essentially trying to place the entire burden on other countries. Mr. Lamy warned against conducting "international negotiations with a gun to the head and a policy best summarized as 'stop me before I kill again.'" The trade commissioner vowed to take the U.S. before the World Trade Organization if it carries through on the tariff threat.

Clearly, the stakes, as well as tempers, are high. Each of the countries is adamant about protecting its own jobs and industries, and each will present its argument as to why others should make the cuts. And that's where the real fight is going to be: on the question of which countries are going to bear the burden.

It probably won't be the EU, Japan and the U.S., but rather Russia, Brazil and Korea. Russia and Ukraine are expected to shoulder most of the cuts because their producers are much weaker and not as well connected to the World Trade Organization and produce far more than they need. Russia and Ukraine produce 13% of the world's steel but consume only 5%. By contrast, China, the world's top producer, uses most of its output domestically.

A global steel cartel along the lines President Bush is demanding could reshape the economies of every major industrial nation. If history offers any guide, the results might mirror that of the global aluminum industry, which agreed in the 1990s to cut production. In that case, the governments of the U.S., European Union, Norway, Australia, Russia and Canada, the world's primary aluminum makers, first agreed to a two-year limited production cut ranging as high as two million tons. And while less than one million tons was taken out of the world market, the move had the desired effect: Prices did jump, as much as 20 cents a pound, from 56 cents a pound.

Aluminum has been largely profitable since, benefiting those countries and their producers who agreed to cut production voluntarily, though at the cost of lost jobs within the industry and higher prices for consumers from aerospace to beverage makers. President Bush's Treasury secretary, Paul O'Neill, was a key organizer of the aluminum effort when he was chief executive of **Alcoa Inc.**

September Summit

In September, the Bush administration convened a steel summit in Paris and essentially told the world it needed to cut steel production. All the countries agreed in principle. Last year, the \$240 billion world steel industry churned out 847 million tons of steel, about 40 million tons more than users could consume, continuing a trend that has depressed the world's steel prices. The trend benefits steel users, such as auto makers and construction companies, but is destroying steel producers.

One reason for the billowing production is that governments, including the U.S., continue to support even marginal steel production through emergency loans and other subsidies. Moreover, demand has continued to grow and each company and country figures it should be the one supplying that growing demand. Smaller countries, too, have found that they can make lots of money and improve the standard of living of their people by exporting to richer ones.

Since the September meeting, President Bush has sent representatives around the world to get them to come up with a response, identifying where production cuts could be made.

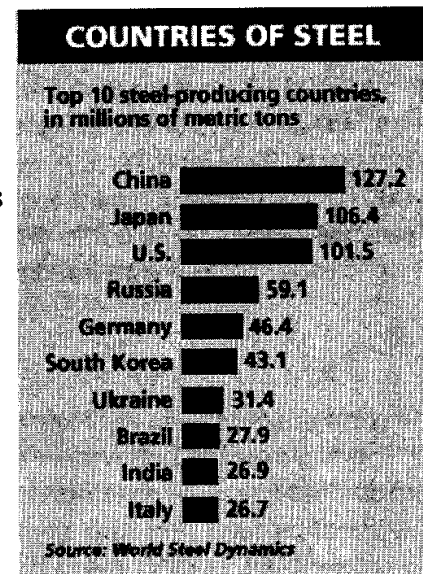
The problem is that all the countries, including the U.S., say they have already made cuts and can't or won't make more. Domestic steel producers say they have already cut 20% of capacity and can afford no more. "We have done our part," trumpeted Grant Aldonas, undersecretary of commerce for international trade and chief steel negotiator at the upcoming Paris summit; he was speaking at a steelworker rally outside Pittsburgh Monday. "We have adjusted and done what's needed to be done. No one can tell me we have not borne our fair share and more. The acid test will come next week when we take that message to some people who do not want to hear it."

Foreign steel producers and their governments say they have little sympathy for the U.S. industry, saying its financial woes reflect poor management and outdated labor practices. "The U.S. steel industry needs to put its own house in order," said the EU's Mr. Lamy. "This should not be done at the expense of those who have already done so."

Because steel is a basic industry, countries are reluctant to rely on imports. That argument has taken on added urgency since Sept. 11. The administration, steel producers and the United Steelworkers of America have passionately argued that the U.S. is at war and needs a healthy steel industry to support that effort.

In fact, last year less than 1% of steel production went into American tanks and military ships. War tools generally require lighter metals such as aluminum or composites of specialized metals, such as titanium, which aren't directly tied to the proposed cuts in capacity. The Bush administration argues that while steel doesn't go directly into tanks, it's needed to build trucks, bridges, buildings and essentially maintain the nation's infrastructure, more vulnerable than ever since Sept. 11.

Mr. Bush's push to eliminate steel capacity has yet to address the environmental and employment





January 10, 2002

Major Business News

U.S. Steel Mills Lift Key Domestic Prices And Will Seek More Increases Midyear

By ROBERT GUY MATTHEWS

Staff Reporter of THE WALL STREET JOURNAL

Now that the looming threat of severe trade tariffs and quotas has scared many U.S. steel importers, American mills are raising prices domestically on key products used in automobiles, appliances, heavy machinery, construction and other prominent goods.

And, the mills warn, they will be seeking more price increases in the middle of 2002 as they try to reverse their lengthy series of annual losses.

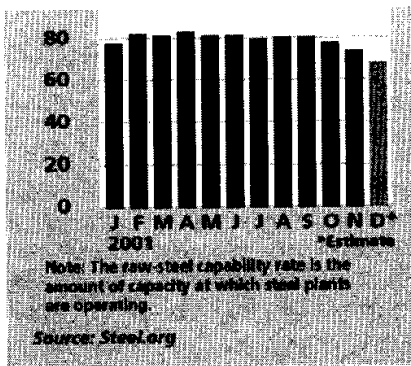
Prices for hot-rolled steel, used in automobiles and other products, have jumped 15% in the past 60 days. The U.S. mill price increases, which could bring the price of hot-rolled to \$250 a ton in a few months, would still be below the cost of making the steel. But the gap would be narrowed significantly. Last month, hot-rolled sold for about \$210 a ton. This month, it is selling for about \$225-\$230 a ton. Buyers of cold-rolled, galvanized and wire-rod steel are also being asked to pay more.

The moves aren't being trumpeted by domestic steelmakers, who want the Bush administration to take over the industry's crushing "legacy" costs and limit foreign competition; President Bush could decide on the issue by the first week of March. Legacy costs are health and retiree benefits, excluding pensions, that are overwhelming the industry, which has shrunk considerably over the years.

STEEL SUPPLY SOFTENING

Raw-steel capability rate, by percent
100 %

"If you want the president to help, you don't make a lot of noise or public announcements, but the price increases are no secret within the industry," said Peter Marcus, steel analyst for industry tracker World Steel Dynamics.



While the price increases are positive news for steelmakers, this is an industry that has seen 28 steel companies -- or more than half -- file for protection under Chapter 11 of the U.S. Bankruptcy Code in the past four years; it has a long way to go before being considered healthy. Steel prices have been on the decline since the Asian steel market collapsed in 1997, when foreign producers switched their sales to the lucrative U.S. market. After a brief recovery in 1998 and an even briefer one in 2000, when hot-rolled prices peaked at about \$330 a ton, the market crashed. Prices hovered around 20-year lows through most of 2001. To make

matters worse, America's economic slump put even more pressure on price levels. Recently, the price competition spiraled so far down that even the least expensive of imported steel was selling at a loss.

Steelmakers haven't been losing money only from low prices, but also from continued low output. Throughout last year, the average production rate never broke 83% of capacity -- the level needed to be profitable -- and for long stretches hovered around 65%.

But a turnaround may be in the offing. Although raw demand isn't picking up, the U.S. market share of domestic producers is rising, due to the trade issue. **U.S. Steel Corp.**, the country's largest steelmaker, late last month said its order rates, a key indicator of future demand, averaged about 90% of capacity in December, compared with 70% in November. **Nucor Corp.**, the No. 2 steelmaker, said its orders are booked for the entire first quarter and starting to fill up for the second quarter.




Imports have been on the decline for months, due in part to the softening economy and prohibitively low steel prices. In November, the last month of available statistics, the level of imports dropped sharply from October. Hot-rolled fell nearly 15%, galvanized fell 18% and cold-rolled fell 6.6%.

Aside from the import drop, American steelmakers are finding new demand because of the demise of **LTV Corp.**, the country's fourth-largest steelmaker. After a year under Chapter 11 protection, LTV decided last month to liquidate its assets. LTV supplied about 8% of the domestic market for flat-rolled steel. With that chunk off the market, customers turned to **U.S. Steel**, **Bethlehem Steel Corp.** and **AK Steel Holding Corp.** Naturally, those makers raised their prices.

Still, some steel buyers say that U.S. mills may get too greedy with their price increases.

Take this time last year. Domestic steelmakers thought that they finally had the upper hand and tried to push through price increases. Yet after an initial jump in purchases, buyers balked and refused to pay the increases. Stuck with growing inventories, domestic steelmakers blinked and began selling at rock-bottom prices, sparking a race for the bottom by all the mills. In the end, consumers came out the winners and the steelmakers were showing loads of red ink. A similar chain of events happened in 2000.

"I believe the mills need the price increases now, however, I believe they will put them in far too fast," said Cassie Lakatos, purchasing agent for the Cleveland division of Feralloy Corp., a Chicago-

-  ¹World Steelmakers Agree to Cut Levels, but Amount Is Less Than U.S.'s Request (Dec. 19, 2001)
-  ²Foreign Steelmakers Feel Pressure From U.S. to Reduce Production (Dec. 18, 2001)
-  ³U.S. Bid to Cut Global Steel Capacity Comes With Threatened Tariff Boost (Dec. 14, 2001)

AMM.com - Top Stories - Jan. 9, 2002

► Distributors wary about production ramp-up

By Tom Balcerek and Scott Robertson

PITTSBURGH, Jan. 9 -- U.S. distributors see a danger in large domestic steel production increases, given potentially flat--and possibly declining--domestic demand.

"A lot has to do with production. Will the mills be price-oriented or production-oriented," asked a Chicago-based trader. He said there already was evidence of prices moving up on imported sheet, which could be in relatively short supply going forward with all the uncertainty created by looming Section 201 government action.

"Some hot-rolled on the dock was just raised by \$10 a ton, even though it was a bit rusty," he added.

Despite such positive signs, service centers are wary of another wrenching boom-bust cycle developing around current events.

"The mills smell blood in the water," a Midwest service center executive said. "LTV (Steel Co.)'s closing and all those canceled orders gave them a good excuse to raise prices. A lot of mills said their order books got filled real quick. But is this a one-time thing? It's kind of like opening up a dam."

A drawdown of inventories prompted in part by a decline in imports could dovetail with Section 201 restrictions and the closure of more than 10 million tons per year of U.S. sheet-making capacity to create a "perfect storm" for large steel price increases, albeit from extremely low levels.

But buyers said they believed that given domestic mills' ability to quickly ramp-up currently underutilized capacity, relatively strong demand would still be necessary for such a dramatic scenario to develop.

North American producers, for the most part, say production should improve in 2002 as they try to fill voids left by steel plant shutdowns and a slowdown in the amount of imported steel shipped to the United States.

"I don't see any improvement in the market," said Daniel DiMicco, president and chief executive officer of Nucor Corp. "Anybody who is doing anything to increase production should not be doing it because the market has improved."

Instead, DiMicco said, supply and demand had become more in balance thanks to the shutdown of production at LTV Steel in Cleveland and Geneva Steel in Vineyard, Utah, combined with slowing imports in the face of the U.S. government-launched Section 201 investigation and previously filed trade cases.

"What has happened in terms of production has to do with supply cutbacks over the past six months," DiMicco said. "I would dispute anyone saying that the market is getting better."

DiMicco said Nucor ran at "fairly full capacity" in its flat-rolled business in 2001, despite poor

pricing levels, and was maintaining that pace so far in 2002 as prices had begun to rise. "We were looking at a market that would have resulted in production cutbacks until LTV shut down and the imports slowed," he said. "With those dynamics in place, we are able to forecast full production during the first quarter (of 2002). Assuming that the Section 201 is favorable and the trade cases are favorable-and that LTV stays shuttered-production should remain strong through the first and second quarters of this year."

U.S. Steel Corp., Pittsburgh, is preparing to increase production, evidenced by the restart of the No. 6 blast furnace at its Gary, Ind., plant and preparations to restart an idled blast furnace at its Edgar Thomson plant in Pittsburgh.

A company spokesman said the Gary furnace was idled for repairs beginning in mid-October and the Edgar Thomson furnace since mid-June.

"We have seen an increase in the steel order rate," the spokesman said. "Most of those orders are scheduled to ship early in 2002. We're talking about a modest increase."

The spokesman said that the Edgar Thomson furnace currently was being prepared to be restarted, but an official date for a restart would be determined by market conditions.

A spokesman at National Steel Corp., Mishawaka, Ind., said the company had been operating four of its five blast furnaces for some time and planned to continue production at that level. "We're seeing some strength in the order book," he said. "But it is more a function of the shutdown of LTV than it is to any economic improvement."

AK Steel said it was increasing production of electro-galvanized sheet and strip mill products. A company spokesman said that improved demand from automotive customers had been a key factor. "It's hard to quantify" how much of the increase in demand came from economic factors and how much came from LTV's demise, he said. "LTV is a piece of it for us. Certainly, our automotive business has been stronger as a result of LTV (shutting down)."

Ed Scram, vice president of operations at Weirton Steel Corp., Weirton, W.Va., said his company had restarted a blast furnace that was idled for four weeks during the fourth quarter of 2001 in anticipation of an increase in volume in the first part of 2002.

"Obviously, the LTV situation had some impact," Scram said. "But we've also found that most customers and service centers have adjusted inventory levels during the past six months. Inventories are down and they are being increased now. The economy is a factor, too. We are still projecting some softness in the first quarter, but we see some improvement in the second quarter and into the second half of the year."

One area of concern is auto demand. Despite strong business at the end of last year and going into this year, some observers are concerned that automakers might have "stolen" significant business from this year by offering such buying incentives as zero-percent financing. Speculation about layoffs and plant closings at General Motors Corp. and Ford Motor Co. threatened to upstage the unveiling of new car models at the North American International Auto Show in Detroit this week, according to published reports.

Domestic raw steel production for the week ended Jan. 5, the last week for which figures were

available, totaled 1,704,000 net tons, up 16.7 percent from 1,460,000 tons the previous week but down 4.4 percent from 1,782,000 tons produced in the first week of 2001, according to the American Iron and Steel Institute, Washington. Production declined steadily throughout 2001. Output was in a range of 1.7 million to 1.8 million tons per week through most of the first half of the year, but by the end of the year production was averaging between 1.5 million and 1.6 million tons per week.

Raw steel production totaled about 96.6 million tons last year, according to the AISI, down 13.4 percent from 111.6 million tons in 2000.

North American producers, for the most part, say production should improve in 2002 as they try to fill voids left by steel plant shutdowns and a slowdown in the amount of imported steel entering the United States.

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